

Message Text

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AMEMBASSY TEL AVIV
INFO AMCONSUL DHAHRAN
USLO RIYADH

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E.O. 11652: N/A
TAGS: PEPR, IS, SA
SUBJECT: ISRAELI BACKGROUND PAPER ON SAUDI ARABIA

1. WE CANNOT TELL FROM OUR CABLE FILES WHETHER TEL AVIV HAS REPORTED THE FOLLOWING ARTICLE ENTITLED "THE SAUDI CONNECTION" BY YUVAL ELITZUR WHICH APPEARED IN MAARIV ON MARCH 17. SINCE IT HAS BEEN TRANSLATED AND IS BEING DISTRIBUTED BY ISRAELI EMBASSIES AS BACKGROUND PAPER, WE BELIEVE IT IS WORTH BRINGING TO DEPARTMENT'S ATTENTION. WE SUSPECT IT WILL BE PART OF ISRAEL'S ARSENAL DURING CONGRESSIONAL DEBATE ON F-15 SALE. WE WILL SEND DETAILED COMMENTS BY SEPTTEL.

2. BEGIN TEXT: THE MYTH OF THE ABSOLUTE DEPENDENCE OF THE UNITED STATES (AND THE ENTIRE WESTERN WORLD) ON SAUDI ARABIAN OIL - WHICH LEAVES NO CHOICE BUT TO GIVE IN TO ALL THE DEMANDS OF THE SAUDI ARABIAN RULERS, INCLUDING THE SUPPLY OF VAST QUANTITIES OF THE MOST MODERN ARMS AND PRESSURE ON ISRAEL - IS NOTHING BUT A BLUFF OF MONUMENTAL
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PROPORTIONS. IN REALITY, SAUDI ARABIA IS TOTALLY DEPENDENT ON THE UNITED STATES. BUT, THROUGH A SOPHISTICATED PROPAGANDA CAMPAIGN, EXTRAVAGANT SPENDING AND THE "PURCHASE" OF KEY PERSONALITIES IN THE AMERICAN BUSINESS COMMUNITY AND ADMINISTRATION, THE AMERICAN PUBLIC IS BEING BRAINWASHED INTO ACCEPTING THE MYTH OF SAUDI ARABIAN POWER.

3. TODAY THERE IS A "BUYER'S MARKET" IN THE OIL WORLD. MOST OF THE OPEC COUNTRIES HAVE BEEN FORCED TO CUT DOWN ON THEIR OIL PRODUCTION DUE TO WANING DEMAND AND, AT PRESENT, THEY HAVE A SURPLUS PRODUCTION CAPACITY OF BETWEEN 20 AND 25 PERCENT OF THE OIL ACTUALLY MARKETED. THESE SURPLUSES HAVE FORCED THE OIL CARTEL TO ABANDON THE THOUGHT OF FURTHER OIL PRICE INCREASES AND LED TO THE PRICE FREEZE ADOPTED AT THE OPEC CONVENTION HELD IN CARACAS LEST DECEMBER.

4. WESTERN EXPERTS AGREE THAT, IN THE NEAR FUTURE, THE PRODUCTION SURPLUSES OF THE OIL-PRODUCING STATES WILL RISE STILL FURTHER, BECAUSE THE RECOVERY OF WESTERN ECONOMIES FOLLOWING THE ECONOMIC CRISIS OF 1973-75 HAS BEEN SLOWER THAN ORIGINALLY ANTICIPATED - AS A RESULT OF WHICH THE RISE IN DEMAND FOR OIL HAS ALSO LAGGED BEHIND EXPECTATIONS - AND BECAUSE OF THE RECENT DISCOVERY OF MAJOR OIL DEPOSITS IN NON-OPEC COUNTRIES - PARTICULARLY IN ALASKA, THE NORTH SEA AND IN MEXICO. ALSO, THE DECLINE IN PRODUCTION FROM VETERAN OIL FIELDS WITHIN THE UNITED STATES HAS RECENTLY BEEN SLOWED DOWN AND, IN SOME PLACES, EVEN TOTALLY HALTED.

5. THE YEAR OF 1982. BUT, SAY THOSE EXPERTS WHO BELIEVE IN THE "SAUDI CONNECTION" IN THE EARLY 1980'S AND POSSIBLY AS SOON AS 1982, WORLD OIL CONSUMPTION, WHICH IS GRADUALLY RISING, WILL CATCH UP WITH THE PRODUCTIVE CAPACITY OF ALL OIL SOURCES KNOWN TODAY. AND, SINCE THE DEVELOPMENTS OF LIMITED OFFICIAL USE

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NEW OIL FIELDS TAKE FROM FIVE TO TEN YEARS, THEY MAINTAIN. NONE COULD POSSIBLY BE EXPLOITED BY THE EARLY 1980'S. THUS, THEY FORECAST A WORLD OIL SHORTAGE IN 1982 OR, BY THE LATEST, IN 1985.

6. THE ONLY COUNTRY THAT CAN NOW SUBSTANTIALLY INCREASE PRODUCTION IS SAUDI ARABIA, WHICH POSSESSES THE WORLD'S LARGEST OIL RESERVES. TODAY SAUDI ARABIA SUPPLIES 8.5 MILLION BARRELS OF OIL DAILY, TOTALLING ALMOST 30 PERCENT OF ALL OIL MARKETED BY THE 13 OPEC COUNTRIES, AND ALMOST 18 PERCENT OF TOTAL WORLD OIL CONSUMPTION. WITHOUT ANY PARTICULAR EFFORT, IT CAN RAISE PRODUCTION TO 10.5 MILLION BARRELS DAILY. BUT, THINK THE EXPERTS OF THE ENERGY DEPARTMENT OF THE UNITED STATES, TO PREVENT A CRISIS, SAUDI ARABIA WILL HAVE TO PRODUCE 16 MILLION BARRELS DAILY BY 1985.

7. THE MYTH OF SAUDI ARABIAN OMNIPOTENCE. ON ONLY ONE ISSUE DO SAUDI ARABIA AND THE WESTERN COUNTRIES DIFFER, EXPLAIN COMMENTATORS: THE SUBJECT OF PEACE BETWEEN ISRAEL AND THE ARAB STATES. SAUDI ARABIA, THEY SAY, HAS GIVEN UP ITS DEMAND THAT ISRAEL BE DESTROYED. IT EVEN FEARS AN ARAFAT-LED LEFTIST STATE ON THE WEST BANK AND IN THE GAZA

DISTRICT, AND IS PREPARED TO HELP PREVENT ITS COMING INTO BEING.

8. BUT, ON THE OTHER HAND, IT WANTS TOTAL ISRAELI WITHDRAWAL - FROM EAST JERUSALEM, AS WELL - AND HAS MADE ITS SUPPORT OF SADAT'S PEACE INITIATIVE CONDITIONAL ON HIS STEADFAST ADHERENCE TO THIS CONDITION. THUS, CONTINUES THE SCENARIO, AMERICAN PRESSURE ON ISRAEL TO WITHDRAW TO THE PER -1967 ARMISTICE LINES IS A RELATIVELY SMALL PRICE TO PAY FOR SAUDI ARABIAN WILLINGNESS TO INCREASE ITS OIL PRODUCTION TOWARD THE MID-1980'S.

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9. HOWEVER, THE MYTH OF THE ABSOLUTE DEPENDENCE OF THE UNITED STATES (AND THE ENTIRE WESTERN WORLD) ON SAUDI ARABIAN OIL IS NOTHING BUT A BLUFF OF MONUMENTAL PROPORTIONS, AND THE FAILURE TO REFUTE IT, EFFECTIVELY, HAS BEEN A MAJOR PUBLIC RELATIONS BLUNDER.

10. EXPERTS CHALLENGE FORECASTS OF OIL SHORTAGES. FIRST, THE FORECASTS OF AN OIL SHORTAGE AT THE BEGINNING OF THE 1980'S APPEAR TO BE UNFOUNDED. DR. ARNOLD SAFER, VICE-PRESIDENT OF THE IRVING TURST COMPANY, TOGETHER WITH OTHER ANALYSTS IN THE FIELD OF OIL ECONOMICS, ARE CONVINCED THAT OIL PRODUCTION IN THE NEXT FEW YEARS WILL BE GREATER THAN FORECASTED, THAT RESERVES IN THE OIL PRODUCING COUNTRIES ARE GREATER THAN GENERALLY BELIEVED, AND THAT ADDITIONAL OIL DEPOSITS WHICH IT WILL BE POSSIBLE TO

EXPLOIT WITHIN A SHORT PERIOD OF TIME ARE LIKELY TO BE
DISCOVERED. MOREOVER, THEY ARE CONVINCED THAT THE RATE
OF INCREASE IN OIL CONSUMPTION WILL REMAIN MODERATE, SINCE
WESTERN ECONOMIES WILL NOT RECOVER AS QUICKLY AS EXPECTED
AND BECAUSE SLOWLY, BUT SURELY, THE COUNTRIES OF THE WEST
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ARE ADOPTING MEASURES WHICH WILL BRING ABOUT GREATER OIL
CONSERVATION.

11. IT HAS BEEN CUSTOMARY TO ASSUME THAT OIL CONSUMPTION
RISES AT THE SAME RATE AS THE GROWTH IN GROSS NATIONAL
PRODUCT IN INDUSTRIALIZED STATES. HOWEVER, STUDIES RECENTLY
CONDUCTED BY THE INTERNATIONAL ENERGY AGENCY, BASED IN
PARIS, HAVE SHOWN THAT ENERGY CONSUMPTION IN A NUMBER OF
COUNTRIES WHERE EFFECTIVE CONSERVATION METHODS HAVE BEEN
INTRODUCED - SUCH AS WEST GERMANY AND FRANCE - HAS RISEN
AT A RATE SLOWER THAN THAT OF THE GNP IN THOSE COUNTRIES.

12. ACCORDING TO SAFER, THE SUPPLY OF OIL WILL CONTINUE
TO EXCEED DAMAND UNTIL THE MIDDLE OF THE 1980'S AND, IF
ANY SHORTAGE DEVELOPS AT ALL, IT WILL BEGIN TO APPEAR
TOWARD THE END OF THE 1980'S. A SIMILAR CHALLANGE TO
"OFFICIAL" ESTIMATES HAS BEEN AIRED BY PROFESSOR MARSHAL
GOLDMAN OF HARVARD UNIVERSITY, RECOGNIZED AS ONE OF THE
LEADING EXPERTS ON THE ECONOMY OF THE SOVIET UNION.

13. ACCORDING TO PROFESSOR GOLDMAN, IT IS NOT AT ALL LIKELY
THAT RUSSIA WILL REQUIRE OIL IMPORTS AS EARLY AS THE MID-
1980'S, FOR ITS RESERVES ARE LARGER THAT THOSE ESTIMATED
BY THE CIA. FURTHERMORE, THE SOVIET UNION DOES NOT HAVE
ADEQUATE FOREIGN CURRENCY RESERVES TO PURCHASE OIL AND, IF
FACED WITH A SHORTAGE, IT WILL HAVE NO ALTERNATIVE BUT TO
CUT BACK ON CONSUMPTION.

14. THE FEAR OF A FLIGHT FROM THE DOLLAR. FURECASTS OF
INTERNATIONAL ECONOMIC CHAOS SHOULD THE SAUDI ARABIANS
WITHDRAW THEIR INVESTMENTS FROM WESTERN COUNTRIES ARE ALSO
CHALLENGED BY MANY. FIRST, CONTEND SENIOR ECONOMISTS, THE
MAJOR PROBLEM FACING THE SAUDI ARABIANS TODAY IS NOT
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HOW TO TRANSFER THEIR MONEY FROM COUNTRY TO COUNTRY, BUT
TO FIND PLACES WHERE THEY CAN INVEST IT WITH RELATIVE
SECURITY.

15. SECOND, AS THE ASSISTANT SECRETARY OF THE U.S. TREASURY, DR. ANTHONY SALOMON, STATED RECENTLY IN TESTIMONY BEFORE A SENATE INVESTIGATING COMMITTEE, THERE IS NO FEAR THAT THE SAUDI ARABIANS WILL STOP INVESTING IN UNITED STATES TREASURY NOTES, BECAUSE ANY BLOW TO THE ECONOMY OF THE UNITED STATES WILL HARM THEM MORE THAN ANYBODY ELSE. NOR NEED A "FLIGHT FROM THE DOLLAR" BE FEARED, BECAUSE SAUDI ARABIA'S "AMERICAN CONNECTION" IS STRONGER THAN AMERICA'S SAUDI CONNECTION". MOREOVER, SWISS AND GERMAN BANKS NOW LIMIT DEPOSITS BY FOREIGN RESIDENTS - ESPECIALLY PETRODOLLAR DEPOSITS - AND, IN GREAT BRITAIN, IT IS NOW MANDATORY TO REPORT ANY INVESTMENT OF ARAB CAPITAL IN A BRITISH COMPANY. THIS HAS ALREADY RESULTED IN A DECREASE OF THE FLOW OF ARAB CAPITAL TO THAT COUNTRY.

16. IN THE U.S. SENATE, A BILL HAS RECENTLY BEEN INTRODUCED WHICH WOULD IMPOSE RESTRICTIONS ON THE SIZE OF DEPOSITS AMERICAN BANKS COULD ACCEPT FROM A SINGLE DEPOSITOR, FOR THEIR OWN PROTECTION. THOUGH THE BILL HAS LITTLE CHANCE OF BEING ADOPTED, IT DOES INDICATE A CERTAIN MOOD, WHICH HAS CERTAINLY NOT BEEN OVERLOOKED BY THE ARAB MONEY LORDS WHO REALIZE THAT AN OIL EMBARGO OR ANY FORM OF OVERT POLITICAL PRESSURE WOULD ANGER THE U.S. CONGRESS.

17. HUNDREDS OF FRIGHTENED PRINCES. EVEN STRONGER IS THE CASE AGAINST THE MYTH OF "SAUDI ARABIAN POLITICAL POWER". EVERY STUDENT OF SAUDI ARABIAN AFFAIRS TODAY KNOWS THAT THE ABSOLUTIST, REACTIONARY REGIME OF KING KHALED IS NOT AS STRONG AS IT SOMETIMES APPEARS, AND THAT IT IS IN FACT KEPT IN POWER BY "AMERICAN BAYONETS". IT IS NOT THE UNITED STATES THAT HAS TO FEAR SAUDI ARABIAN DICTATES - IN FACT IT IS THE PRESENT REGIME IN RIYADH WHICH WILL UNDOUBTEDLY LIMITED OFFICIAL USE

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HEED ANY AND ALL AMERICAN DIRECTIVES. FOR TODAY, POWER IN SAUDI ARABIA DOES NOT REST IN THE HANDS OF KING KHALED, OR EVEN IN THOSE OF CROWN PRINCE FAHD, BUT, RATHER, IN THE HANDS OF THE "EXTENDED ROYAL FAMILY". HUNDREDS OF PRINCES RULE THE COUNTRY THROUGH A DELICATE INTERNAL BALANCE OF POWER, AND THEY ARE FULLY AWARE THAT, WITHOUT AGREEMENT

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AMONG THEM, THERE WOULD BE A TAKEOVER BY "REVOLUTIONARY"
FORCES WHICH WOULD STRIP THEM OF THEIR STATUS AND VAST
HOLDINGS.

18. THIS DELICATE BALANCE IS MAINTAINED ONLY BY THE
AMERICANS. AN AMERICAN DEPARTURE FROM RIYADH, OR A TRANS-
FER OF U.S. SUPPORT FROM ONE SIDE TO ANOTHER, WOULD RESULT
IN AN UPHEAVAL, THE MAJOR VICTIMS OF WHICH WOULD BE THE
PRINCES. THERE IS NO DOUBT, THEREFORE, THAT AMERICAN
PRESSURE IN RIYADH TO OFFER MORE SUBSTANTIAL SUPPORT FOR
PRESIDENT SADAT'S PEACE INITIATIVE WOULD BEAR FRUIT.

19. HOW THEN CAN IT BE EXPLAINED THAT MIGHTY POWERS
FEAR THIS DESERT COUNTRY, WHOSE POPULATION NUMBERS LESS
THAN FIVE MILLION? IT SEEMS THAT THE SUCCESS OF THIS
SYSTEMATIC "BRAINWASHING" CANNOT BE EXPLAINED WITHOUT AN
UNDERSTANDING OF THE SCOPE OF THE SAUDI ARABIAN BRIBERY-
DIRECT AND INDIRECT - WHICH NOW TAKES PLACE, ON A WORLD-
WIDE SCALE.

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20. THOUSANDS OF MERCENARIES. IN THE PAST IT WAS MAINLY
THE ARAMCO OIL COMPANY, OWNED BY SEVERAL LARGE AMERICAN
OIL CONCERNS, WHICH REPRESENTED THE INTERESTS OF SAUDI
ARABIA IN THE MEDIA AND ON VARIOUS LEVELS OF THE AMERICAN
ADMINISTRATION. THE OIL COMPANIES DISBURSED VAST SUMS
IN PAYMENT TO PUBLIC FIGURES IN ORDER TO IMPROVE THE FOR-
TUNES OF THEIR SAUDI ARABIAN OVERLORDS.

21. TODAY THE OIL COMPANIES HAVE BEEN JOINED BY LARGE

CONTRACTING FIRMS, SUCH AS BECHTEL, WHICH IS HEADED BY GEORGE SCHULTZ, FORMER U.S. SECRETARY OF THE TREASURY; A NUMBER OF MAJOR U.S. BANKS; AND VINNELL, WHICH RECRUITS "EXPERTS" FOR SERVICE IN SAUDI ARABIA, INCLUDING MERCENARIES WHO TODAY SERVE AS "ADVISERS" TO THE SAUDI ARABIAN ARMY, WHICH IS EQUIPPED WITH THE MOST SOPHISTICATED TOOLS OF DESTRUCTION. THE TOTAL NUMBER OF AMERICANS ESTIMATED TO BE WORKING TODAY IN SAUDI ARABIA IS 70,000. ALL EARN HUGE SALARIES, AND IT IS NOT DIFFICULT, THEREFORE, TO UNDERSTAND WHY THEY ARE PREPARED TO DO EVERYTHING IN THEIR POWER TO PREVENT "UPHEAVALS" THAT WOULD ENDANGER THEIR SOURCES OF LIVELIHOOD.

22. WIDESPREAD BRIBERY. SAUDI BILLIONAIRES, SUCH AS ADNAN KHASHOGGI AND CHAITH PHARAON, SOME OF WHOM ARE ALUMNI OF AMERICAN UNIVERSITIES, SPEND MOST OF THEIR TIME IN THE UNITED STATES, AND ARE BUILDING CENTERS OF INFLUENCE FOR THEMSELVES AND THEIR COUNTRY. FOR EXAMPLE, THEY ENLIST UNIVERSITIES, IN SEARCH OF GRANTS TO ESTABLISH "CENTERS OF ISLAMIC STUDIES", TO CONDUCT "STUDIES" AND "SURVEYS" WHICH PROVIDE A QUASI-FACTUAL BASIS FOR THE SUPPOSED EVER INCREASING DEPENDENCE OF AMERICA ON SAUDI ARABIA.

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23. SAUDI ARABIAN CAPITAL IS ALSO USED TO "PURCHASE" THE SUPPORT OF INFLUENTIAL PERSONS IN THE UNITED STATES. NOT LONG AGO, THE AMERICAN PRESS BEGAN TO TAKE AN INTEREST IN THE ACQUISITION OF SHARE IN THE NATIONAL BANK OF GEORGIA, HEADED BY BURT LANCE, THE FORMER DIRECTOR OF THE BUREAU OF THE BUDGET IN THE CARTER ADMINISTRATION WHO WAS FORCED TO RESIGN AFTER IT BECAME KNOWN THAT HE HAD BEEN INVOLVED IN DUBIOUS TRANSACTIONS. IT EMERGED THAT CHAITH PHARAON WAS PREPARED TO PAY ABOUT \$9 MORE THAN THE MARKET PRICE FOR SUCH SHARES. A FRAUD SUIT AGAINST LANCE AND HIS ARAB PARTNERS HAS NOW BEEN FILED BY THE SHAREHOLDERS.

24. THE INTERMEDIARY BETWEEN LANCE AND PHARAON WAS THE LEGAL OFFICE HEADED BY JOHN CONNALLY, FORMER SECRETARY OF THE U.S. TREASURY. PHARAON'S PERSONAL COUNSEL IS FRANK VAN COURT, OF CONNALLY'S LAW OFFICE IN HOUSTON, TEXAS. PHARAON AND CONNALLY ARE ALSO PARTNERS IN A SMALL HOUSTON BANK. IT WAS VAN COURT WHO, IN 1975, HELPED PHARAON ACQUIRE CONTROL OF THE COMMONWEALTH BANK IN DETROIT, WHICH HE THEN SOLD, IN 1977.

25. FREDERICK DUTTON, FORMER ASSISTANT SECRETARY OF STATE FOR LEGISLATIVE AFFAIRS, RECENTLY ADMITTED THAT HE RECEIVES AN ANNUAL SALARY OF \$200,000 FROM THE SAUDI ARABIAN GOVERN-

MENT. BY HIS OWN ADMISSION, HIS SOLE TASK IS TO RPOVIDE
THE SAUDI ARABIANS WITH "EVALUATION" OF WHAT IS HAPPENING
IN WASHINGTON. FOR EXAMPLE, NOT LONG AGO, THE SAUDI
ARABIAN REGIME WAS INTERESTED IN LEARNING WHETHER CONGRESS
WOULD ENACT LEGISLATION AGAINST THE ARAB BOYCOTT. DUTTON
IS ACTIVE IN THE TREASURY DEPARTMENT, AS WELL AS IN OTHER
BRANCHES OF THE GOVERNMENT, IN TRYING TO PRECENT LEGISLATION
THAT WOULD HARM THE OIL COMPANIES OR OTHERWISE HARM SIADU
ARABIA. INCIDENTALLY, HE WAS HIRED BY SAUDI ARABIA BECAUSE
OF HIS CONNECTIONS WITH MOBIL OIL AND WITH FORMER SENATOR
WILLIAM FULBRIGHT, WHOSE LAW OFFICE REPRESENTS, AMONG
OTHERS, THE UNITED ARAB EMIRATES.
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26. GERALD PARSKI, A YOUNG JEWISH LAWYER WHO WAS ASSIS-
TANT SECRETARY OF THE TREASURY IN THE FORD ADMINISTRATION,
ALSO WORKS IN A LAW OFFICE WHICH MAINTAINS TIES WITH THE
ARABS. WILLIS ARMSTRONG, WHO WAS ASSISTANT SECRETARY OF
STATE FOR ECONOMIC AFFAIRS, SERVES AS AN ADVISER TO ADNAN
KHASHOGGI. IN A RECENT CONVERSATION WITH JOURNALISTS,
ARMSTRONG DENIED THE CLAIM THAT HE, OR OTHER REPRESen-
TATIVES OF SAUDI ARABIAN CAPITAL, ARE ABLE TO PROMOTE
SAUDI ARABIAN INTERESTS IN WASHINGTON.

27. THE BIGGEST BLUFF IN HISTORY. THE EVIDENCE SEEMS
TO INDICATE THAT THIS "MODESTY" IS MOST EXAGGERATED. BY
MEANS OF THEIR PETRODOLLARS, THE SAUDI ARABIANS HAVE
SUCCEEDED IN CARRYING OFF ONE OF THE GREAT BLUFFS IN
HISTORY, BY SPREADING THE MYTH OF AMERICAN DEPENDENCE ON
A BACKWARD STATE SOMEWHERE IN THE ARABIAN PENINSULA.
THE TROUTH IS, PARACOXICALLY ENOUGH, THE EXACT OPPOSITE:
THE PRESNE TSAUDI ARABIAN REGIME HAS CONVERTED THAT COUNTRY
INTO AN AMERICAN SATELLITE, WHICH IS TOTALLY DEPENDENT ON
WASHINGTON.
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